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Analysis in Brief

Producer Prices: The Year 2009 in Review

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Producer Prices: The Year 2009 in Review

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.	not available for any reference period
..	not available for a specific reference period
...	not applicable
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0s	value rounded to 0 (zero) where there is a meaningful distinction between true zero and the value that was rounded
p	preliminary
r	revised
x	suppressed to meet the confidentiality requirements of the *Statistics Act*
E	use with caution
F	too unreliable to be published

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Producer Prices: The Year 2009 in Review

by Benoit Germain

1 Summary

Prices that companies charged for their manufactured goods at the plant gate, as measured by the Industrial Product Price Index (IPPI), fell 3.4% in 2009. It was the first annual decline in producer prices since 2003 and the largest since the index was introduced in 1956.

Decline in producer prices in 2009 followed a 4.3% increase in 2008. After rising in the first months of 2009, prices dropped sharply, dragging the index into negative territory by the end of the year.

The main cause of last year's decline was a 27.9% decrease in petroleum and coal prices. This decrease reflected sluggish economic activity and weak world demand.

Excluding petroleum and coal products, the IPPI was virtually unchanged (+0.1%). The decline in petroleum and coal prices was partly offset by a 5.5% increase in prices of motor vehicles and other transportation equipment. This gain was closely linked to the depreciation of the Canadian dollar relative to the US dollar in 2009.

Prices also rose for a number of other products affected by the exchange rate, including machinery and equipment (+3.6%); electrical and communications products (+3.5%); and pulp and paper products (+0.2%). Primary metal product prices fell 10.1% in 2009, their second consecutive annual decline. They were forced downward by falling aluminum, iron and steel, nickel and copper product prices.

The IPPI reflects the prices that producers in Canada receive as the goods leave the plant gate. It does not reflect what the consumer pays. Unlike the Consumer Price Index, the IPPI excludes indirect taxes and all the costs that occur between the time a good leaves the plant and the time the final user takes possession of it, including the transportation, wholesale, and retail costs.

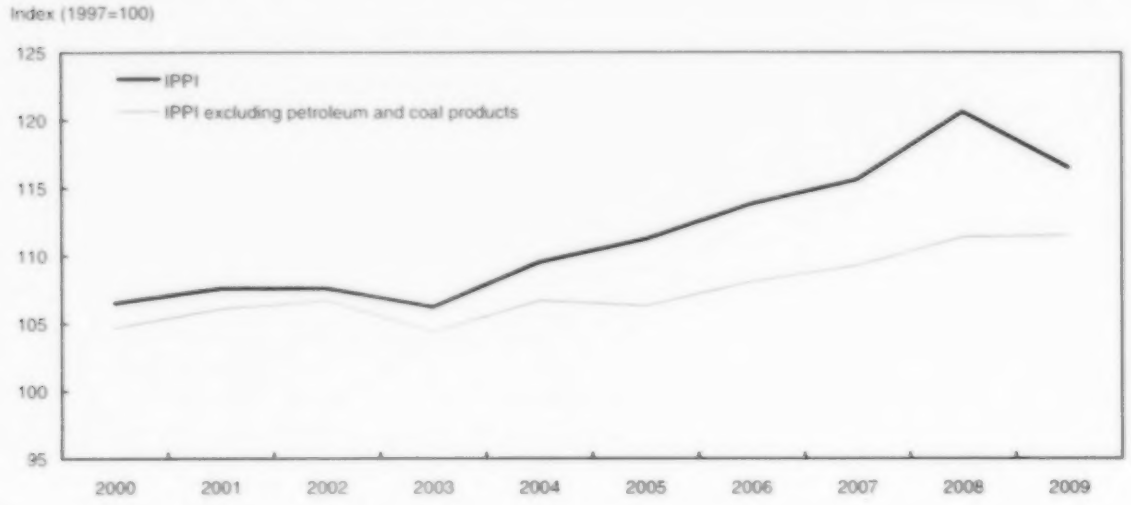
This study examines the year-over-year changes in the IPPI from 2008 to 2009. All price changes are calculated on the basis of their annual average, unless otherwise indicated.

2 First annual decline in producer prices since 2003

Prices of industrial products manufactured in Canada fell 3.4% in 2009, as measured by the Industrial Product Price Index (IPPI). It was the first decline in producer prices since 2003 and the largest since the index was introduced in 1956.

This drop can be attributed to falling petroleum and coal prices. Excluding petroleum and coal product prices, the IPPI remained virtually unchanged (+0.1%).

Chart 1
Falling petroleum and coal product prices led to drop in the Industrial Product Price Index



Source(s): Statistics Canada (Industrial Product Price Indexes), CANSIM table 329-0039.

The 27.9% drop in petroleum and coal product prices accounted for about two-thirds (68%[1]) of the overall decrease in the IPPI in 2009. In 2008, petroleum and coal product prices rose 25.7%, which was attributable to gains in the prices of inputs used to produce petroleum products.

Most petroleum product prices fell sharply in 2009, particularly gasoline (-24.5%) and diesel fuel (-36.4%).

Net refined petroleum sales by Canadian refineries and distributors fell 5.4% from 103 billion cubic meters in 2008 to 97 billion cubic meters in 2009.[2] The economic slowdown and declining prices of petroleum and coal products drove down the supply among Canadian industries.

As prices of petroleum and coal products in the IPPI fell, prices of mineral fuel inputs in the Raw Materials Price Index (RMPI) dropped a sharp 33.9% in 2009.[3]

Among mineral fuels, the price of crude mineral oils dropped 35.6%, while natural gas prices fell 22.0%.

3 Increase in IPPI excluding petroleum and coal products smallest in four years

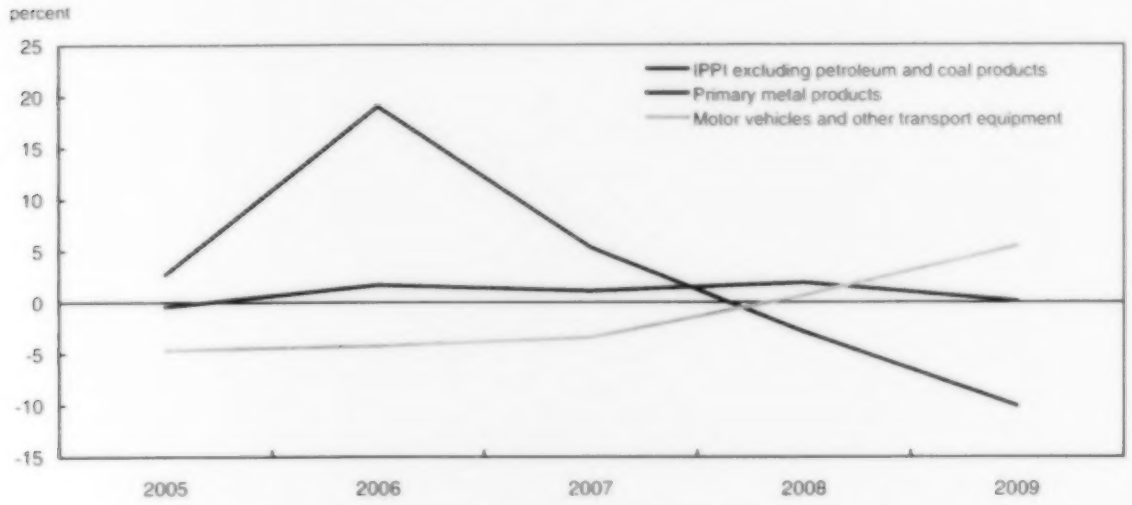
The 0.1% rise in the IPPI – excluding petroleum and coal products – marked a fourth consecutive year of growth. However, it was the smallest increase in four years.

Fourteen of the 21 product groups[4] were responsible for the increase in the IPPI excluding petroleum and coal products. However, the rise was mainly the result of advancing prices of motor vehicles and other transport equipment. This effect, however, was tempered by falling prices for primary metal products.

1 This is calculated by dividing the contribution of petroleum and coal products by the total contribution of products on the decline (see Table 1).
2 Source: Statistics Canada (statistics on refined petroleum products), CANSIM table 134-0003.
3 This article refers to two price indexes: the RMPI and the IPPI. The RMPI represents the prices Canadian producers must pay to acquire the raw materials needed to produce products included in the IPPI basket.
4 The products group includes about 1,400 products aggregated into 21 groups (see Table 1).

The motor vehicles and other transport equipment price index was the most important of the IPPI groups. It accounted for more than 16% of the overall index (including petroleum and coal products). In 2009, the increase in prices in this group accounted for more than half the growth of upward-trending products.

Chart 2
Rising prices of motor vehicles and other transport equipment held up the IPPI excluding petroleum and coal products

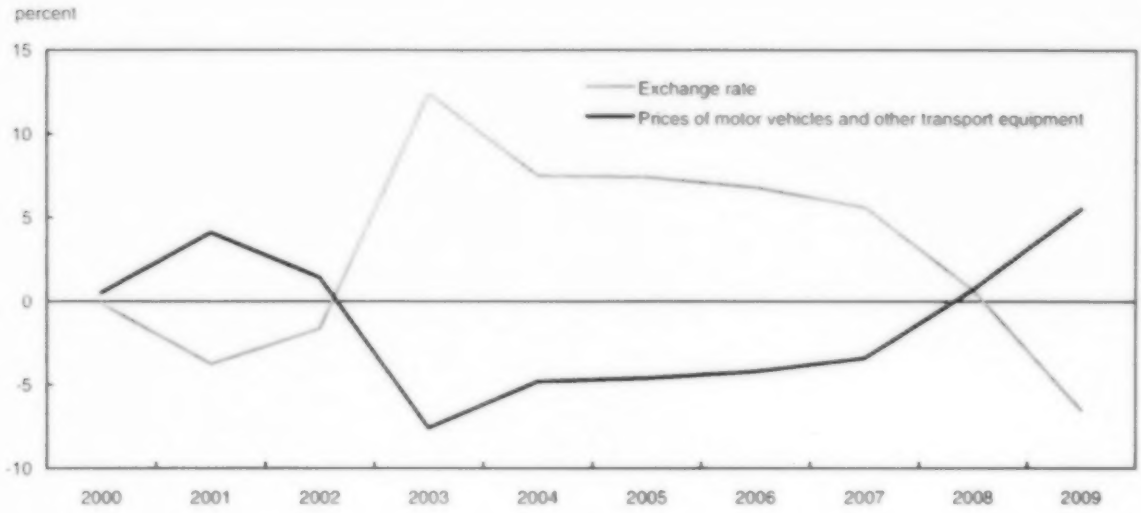


Source(s): Statistics Canada (Industrial Product Price Indexes), CANSIM tables 329-0039, 329-0044 and 329-0045.

3.1 Depreciation of the dollar led to increase in prices of motor vehicles and other transport equipment

The 5.5% rise in prices of motor vehicles and other transport equipment in 2009 followed a 0.7% increase in 2008. The increase over the past two years ended the drop in prices from 2003 to 2007.

Chart 3
Prices of motor vehicles and other transport equipment rose in 2008 and 2009



Source(s): Statistics Canada (Price Indexes for Motor Vehicles and Other Transport Equipment and Exchange Rates), CANSIM tables 329-0045 and 176-0064.

The price index for motor vehicles and other transport equipment was directly affected by changes in the exchange rates.[5] Certain Canadian producers that export vehicles to the United States are paid in fixed US dollar prices.

In 2009, the Canadian dollar lost on average 6.5% of its value relative to the US dollar, which pushed up motor vehicle prices quoted in US dollars.

Note to readers

The Industrial Product Price Index (IPPI) reflects the prices that producers in Canada receive as the goods leave the plant gate. It does not reflect what the consumer pays. Unlike the Consumer Price Index, the IPPI excludes indirect taxes and all the costs that occur between the time a good leaves the plant and the time the final user takes possession of it, including transportation costs and wholesale and retail margins.

Canadian producers export many goods. They often indicate their prices in foreign currencies, especially in US dollars, which are then converted into Canadian dollars. This is particularly the case for motor vehicles and for pulp, paper and wood products. Therefore, a rise or fall in the value of the Canadian dollar against its US counterpart affects the IPPI. But the conversion into Canadian dollars only reflects what is reported by respondents. It is not a measure that takes into account the full effect of exchange rates.

The conversion of prices received in US dollars is based on the average monthly exchange rate (noon spot rate) established by the Bank of Canada, which is available in CANSIM in table 176-0064 (series v37426). Annual variations in the exchange rate, as described in the text, are calculated based on an indirect quotation of the exchange rate (for example, CAN$1 = US$X).

5 More details are provided in the Note to readers.

3.2 Second consecutive yearly decline in metal products prices

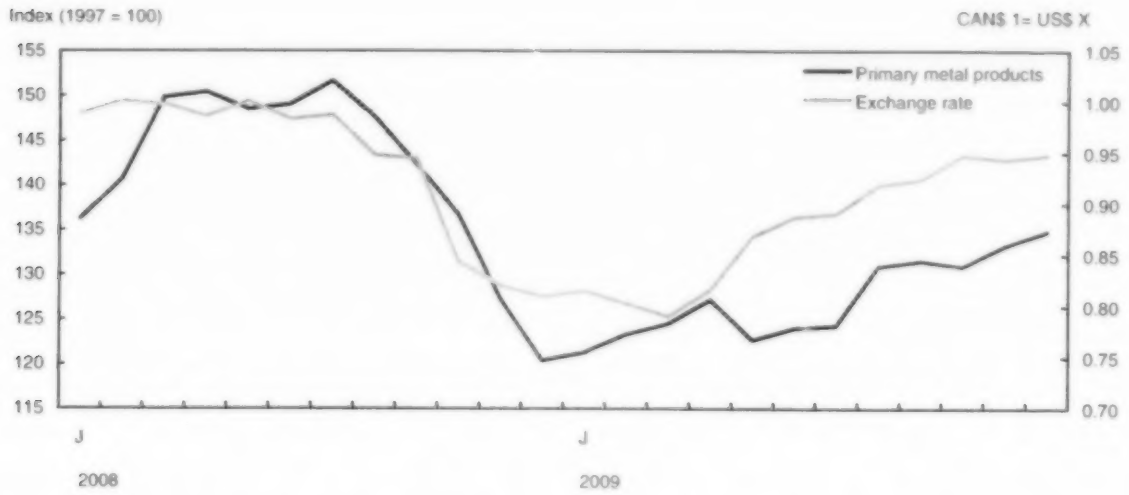
In 2009, primary metal product prices declined 10.1% following a 2.9% decrease in 2008. It was the second consecutive yearly drop in this index.

The prices of all major components of this index fell. The biggest contributors to the decline in this index were aluminum (-20.5%), iron and steel (-4.9%), nickel (-25.5%) and copper and copper alloy products (-16.1%).

Other non-ferrous metal product prices declined only 1.9%, a drop slowed by an increase in precious metal prices. Prices of gold and gold alloys in primary forms rose for the 10th consecutive year, increasing by 19.2% in 2009. Silver and platinum continued the upward trend begun in 2004, growing 1.7% in 2009.

As with gold, the strength of silver prices can be attributed[6] to higher demand, largely speculative, resulting from the depreciation of the US dollar relative to other currencies and a weak world economy.

Chart 4
After substantial decline in second half of 2008, metal product prices strengthened in 2009



Source(s): Statistics Canada (Industry Price Indexes for Primary Metal Products and Exchange Rates), CANSIM tables 329-0044 and 176-0064.

In 2009, primary metal product prices recovered, and the Canadian dollar rose relative to the US dollar. From January to December 2009, metal product prices grew 11.5%; the dollar went up 16.3%.

Primary metal product prices reached a historic peak in April 2007 and hit their low point in December 2008. Between these two extremes, the decline in prices was 25.4%.

Nevertheless, from December 2008 to December 2009, prices again resumed an upward trend. During that time, the primary metal products price index grew by 12.4%, but nevertheless ended the year lower than the 2008 average.

Strong demand by China and a reduction in the prices of inputs from South America[7] contributed to the price recovery in 2009.

6 Frank Tang and Jan Harvey, "Gold price sets record," *Calgary Herald*, p. E3.
7 Peter Koven, "IRC sues Vale Inco over royalty outlay. Claims shortfall of US$26M since 2006," *National Post*, p. FP4.

4 Lower petroleum prices led to lower chemical product prices

From 2003 to 2008, the prices of chemical products rose at an average annual rate of 4.5%. In 2009, however, the index declined 5.3%.

Leading the decline were industrial chemical products (-10.0%), particularly industrial organic chemical products (-18.0%).

Since the prices for these products are closely linked to petroleum prices, the drop in petroleum product prices led to a decrease in chemical product prices.

5 Price variations for other products had little impact on IPPI

Prices for the remaining products comprising the IPPI had little effect on overall changes in the index in 2009; their movements reflected the sluggish economy.

Prices for certain products are sensitive to dollar fluctuations relative to the US dollar, particularly those for machinery and equipment (+3.6%), electrical and communications products (+3.5%), and pulp and paper products (+0.2%). Given that the Canadian dollar depreciated 6.5% relative to the US dollar, those products tended to rise.

Since 2004, prices for lumber and other wood products have dropped continuously. However, they appear to have stabilized in 2009, falling only 0.7%. Prices were at their lowest levels since 1992.

Sales of wood products declined by 22.8% in 2009, the fifth consecutive annual decrease.[8]

8 Source: Statistics Canada, CANSIM table 304-0014.

Table 1
Weight distribution, average annual changes and product group contributions to the IPPI, 2009

	Product group weights[1]	Average annual change	Contribution to change[2]
	percent		
Total	100.00	-3.4	.
Meat, fish and dairy products	5.41	1.3	0.073
Fruit, vegetables, feeds and other food products	5.89	-0.2	-0.010
Beverages	1.67	2.4	0.041
Tobacco and tobacco products	1.18	1.3	0.016
Rubber, leather and plastic fabricated products	3.26	1.4	0.046
Textile products	1.33	1.1	0.014
Knitted products and clothing	1.31	0.1	0.001
Lumber and other wood products	4.19	-0.8	-0.025
Furniture and fixtures	1.63	1.4	0.023
Pulp and paper products	6.52	0.1	0.006
Printing and publishing	1.70	3.5	0.059
Primary metal products	9.51	-10.1	-0.959
Metal fabricated products	4.58	-0.3	-0.014
Machinery and equipment	4.90	3.6	0.179
Motor vehicles and other transport equipment	16.71	5.5	0.911
Electrical and communications products	4.36	3.5	0.152
Non-metallic mineral products	2.04	2.5	0.052
Petroleum and coal products	12.33	-27.9	-3.446
Chemicals and chemical products	8.17	-5.3	-0.435
Miscellaneous manufactured products	2.39	3.6	0.085
Miscellaneous non-manufactured products	0.93	-21.0	-0.194

1. The relative size is based on 1997 weights adjusted with 2008 prices.
2. Contributions are calculated with the following formula [2009 index / ((2008 index)-1] * product group weights.
Source(s): Statistic Canada, CANSIM tables 329-0039, 329-0040, 329-0041, 329-0042, 329-0044, 329-0045, 329-0046 and 329-0048.

About this article

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